



## **Audit Recommends Improvements to Employment & Training Program for Welfare Recipients**

Earlier this month, the State Auditor's Office (SAO) released an audit of the Texas Workforce Commission's (TWC) administration of the "Choices" program, the employment and training arm of the Temporary Assistance for Needy Families (TANF) welfare program. TANF's goal is to help very poor parents become self-sufficient through job preparation and employment. Since 2003, the number of Choices participants has fallen by two-thirds, increasing by 85% the amount of employment and training funds available to spend on each welfare recipient. Despite this increase in funds, outcomes for families leaving welfare have not improved. Though the audit concluded that TWC adequately administers the Choices program, it identified the need to improve case management, increase oversight of Choices program expenditures, and improve employment outcomes for welfare recipients. This *Policy Page* analyzes the auditor's report. It also summarizes recent research on the most promising strategies for using education and training to improve outcomes for families leaving welfare.

### **Texas' Welfare Efforts and Outcomes**

- Education and training programs are a critical part of a successful welfare-to-work strategy.
- Only 9.1% of Choices participants participated in education and training programs in 2006.
- The number of adults on welfare has declined 70% since 2003, yet families who leave welfare for work remain below the federal poverty level.
- Welfare recipients tend to find employment in retail and food service industries, which do not provide many opportunities for job advancement or significant wage increases.
- The recidivism rate is high: 60% of the clients receiving Choices services were on welfare at some point in the past three years.

### **THE AUDIT REPORT**

#### **Overview**

In Texas, the Texas Workforce Commission (TWC) administers Choices through 28 local workforce development boards. These boards subcontract with providers to provide employment and training and other supportive services to TANF clients.

The Texas Legislature appropriated \$88.8 million (including \$82.4 million in federal funds) to the Choices program for fiscal year 2006. Additional funds for child care are available to Choices program clients, but those funds are appropriated separately.

The audit's objectives were to determine:

- Whether TWC effectively administers Choices to achieve the program's purpose; and

- Whether selected local workforce development boards have processes in place to achieve Choices program outcomes.

The audit covered fiscal years 2006 and 2007 and used performance measures for fiscal year 2006. Auditors conducted interviews with TWC and board staff, reviewed the documentation in clients' case files to determine if program requirements were met, analyzed board expenditures, and evaluated trends in employment outcomes for families leaving welfare. The full report (SAO Report No. 08-002) with TWC's responses is available at:

<http://www.sao.state.tx.us/reports/main/08-002.pdf>

## Key Findings and Recommendations

Below are the report's main findings and recommendations.

### TWC should improve board compliance with Choices program rules related to case management

*The audit identified a pattern of boards not complying with program rules related to case management. While TWC monitors board compliance with program rules, it does not work with the boards to identify and correct the causes of noncompliance. Thorough case management is critical to ensure the effectiveness and integrity of the Choices program. TWC could improve case management by imposing sanctions on boards for noncompliance with program rules.*

### Background

There are two types of "noncompliance" and two types of "sanctions," or penalties, in the Choices program: when recipients fail to

comply with program rules, and when boards fail to comply with program rules.<sup>1</sup>

Clients are required to meet a work requirement that is designed to help them overcome barriers to employment and find a job (see box below excerpted from page 2 of the audit report). Boards must follow specific rules to help clients meet this requirement and take specific steps to penalize them when they don't. Boards also must ensure that at least 50% of Choices recipients are meeting the work requirement (90% for two-parent families); this is known as the "work participation rate" and is a requirement under federal law. States face financial penalties if they don't meet this requirement.

Failure to comply with program rules has disastrous consequences for welfare recipients: the family loses its cash assistance and the adult loses her Medicaid. However, TWC does not impose penalties on boards for poor case management. It only imposes sanctions on boards for failure to meet the work participation rate requirement.

Choices Program Client Participation Requirements
<ul style="list-style-type: none"> <li>▪ Single parents are required to participate for 30 hours a week.</li> <li>▪ Two-parent families are required to participate between 35 and 55 hours a week, depending on whether the Commission is providing them with child care.</li> </ul>
Source: Title 40, Texas Administrative Code, Section 811.25.

### Findings

The audit identified several areas where boards routinely fail to follow case management rules. For example, one-fifth of cases tested did not contain a family

<sup>1</sup> The rules related to board and client rights and responsibilities in the Choice program are at 40 TAC §811.11-16.

employment plan, which is required for all TANF clients. Auditors also found that caseworkers weren't accurately recording clients' work hours (34% of cases tests included errors), often delayed requests for sanctions for clients' noncompliance with programs, and failed to routinely verify clients' eligibility for services.

Poor case management can negatively affect program integrity and lead to errors that jeopardize federal funding. For example, recording work hours accurately is critical because it affects the federal work participation rate on which federal funding is based. Poor case management can also make it harder for clients to become self-sufficient. For example, the family employment plan is intended to help caseworkers identify the clients' skills, experience, education, and barriers to employment as well as the services the client needs to get and stay employed. A caseworker's failure to prepare this plan makes it less likely that the client will have successful employment outcomes.

The audit identified *insufficient caseworker training* and the *lack of formal evaluation procedures* for caseworkers as potential causes for poor case management.

### Recommendations

- TWC should work with local workforce boards to improve case management by providing additional training and creating a formal evaluation process for caseworkers.
- TWC should impose sanctions on boards with poor case management records.
- Board subcontractors should implement a formal evaluation process for their staff that includes case management as a job performance measure.

### TWC/Management Response

- TWC has directed its contract management department to increase guidance to the boards in finding and correcting problems related to case management.
- TWC staff will consider boards' case management records when deciding whether to impose sanctions.
- TWC staff will develop specific procedures and practices for boards to ensure they are reporting work hours accurately and supporting them with acceptable documentation.
- All boards that fail to meet the work participation rate requirement must submit a Performance Improvement Plan (PIP) to TWC. In these PIPs, TWC requires boards to address their plans for identifying and meeting the training needs of their staff. The PIP also requires the boards to participate in TWC-sponsored workshops and trainings.
- TWC has provided a series of regional trainings across the state for front-line staff, sponsored a Webcast on recent federal changes to TANF rules, and coordinated several Choices-related sessions at recent workforce forums. TWC plans to conduct similar trainings in the upcoming year.

### TWC should improve oversight of Choices expenditures

*TWC needs to improve its oversight of local workforce boards Choices program expenditures and evaluate their impact on program outcomes.*

### Background

TWC collects summary-level information about local boards' Choices expenditures and uses this information to compare actual spending to budgeted spending and track the amount of administrative spending reported by boards. TWC rules limit a board's

*reported* administrative expenditures to 10% of its total expenditures. Federal rules limit a state's TANF administrative spending to 15% of total spending. TWC uses the board expenditure reports to ensure that boards stick to their budgets and do not exceed the 10% administrative limit.

## Findings

The information on board spending collected by TWC is not detailed enough to effectively monitor and evaluate the use of Choices funds. The audit noted that 75% of board expenditures were generically classified as "Other Work Activities/Expenses." This lack of detail makes it impossible for TWC to understand how the boards are using Choices funds and whether they are using them effectively to help clients get and retain good jobs. It also makes it hard to compare specific types of spending across the 28 local workforce boards in order to identify best practices. Finally, TWC is responsible for helping the boards improve their performance, which it can't do without detailed information linking efforts to outcomes.

The audit also found that TWC does not have a process to determine whether a board's *subcontractors* have administrative expenditures that should be included in the board's total administrative expenditures. As a result, TWC considers all reported subcontractor spending as direct spending on client services. According to federal regulations and state guidance, the boards should distinguish administrative expenses from direct services when reporting their subcontractors' expenditures.

The audit also examined the use of "gift cards" to help clients pay for work-related expenses, a practice that is permitted under Choices rules. However, the audit found that TWC does not track the circumstances under which gift cards are issued, the amount of gift

cards distributed, or their impact on program outcomes. It also found that boards often issue gift cards as rewards for participation in the Choices program, even though TWC guidance limits the use of gift cards as incentives to "discrete crisis situations" that are nonrecurring.<sup>2</sup>

## Recommendations

- TWC should require boards to report monthly expenditures in greater detail and analyze this information to enhance its technical assistance to boards.
- TWC should provide guidance to boards on how to correctly report subcontractor's administrative expenditures.
- TWC should obtain more detailed information on the use of gift cards and their impact on program outcomes.
- TWC should provide regular feedback to boards on best practices for improving program outcomes.

## TWC/Management Response

- TWC staff are working on new guidance for the boards that will require a more detailed breakdown of the expenditures previously reported under "Other Work Activities/Expense" category.
- TWC will clarify its guidance to the boards on properly classifying and reporting administrative expenditures.
- During their site reviews, TWC will monitor the boards to verify that their reported administrative expenditures include subcontractor administrative expenditures.
- TWC staff has previously provided guidance to the boards recommending that they evaluate the effectiveness of incentives or strategies used to increase participation. TWC is also facilitating

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<sup>2</sup> See *Choices: A Comprehensive Guides*, Section B-1000.12.

training sessions where boards can share best practices.

- TWC is making the necessary automation changes in TWIST (the information system used to capture client data) to track the use of incentives and will analyze and provide feedback to the boards on the effectiveness of those incentives.

### **TWC should maximize the use of Choices funds to improve employment outcomes for families leaving welfare**

*TWC does not adequately analyze and evaluate trends in Choices program outcomes and therefore misses the opportunity to target Choices program funds in a manner that improves client outcomes.*

### **Background**

In Texas, the number of families receiving TANF has fallen 75% since the “welfare reform” movement launched a decade ago. However, the majority of people leaving welfare for work in Texas do not earn enough to make ends meet and often return to the program.

This is because the Choices program embodies a “job-first” approach that emphasizes immediate employment over job training or education. Though the “work-first” approach has succeeded in getting the most employable TANF adults into low-wage jobs, it has also limited the recipients’ opportunities to attain the skills and credentials they need to become self-sufficient. In 2006, only 9% of TANF recipients were involved in education or training activities related to employment.<sup>3</sup>

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<sup>3</sup> Legislative Budget Board Staff Report, “Texas Government Effectiveness and Efficiency Report,” January 2007, page 65. ([http://www.lbb.state.tx.us/Performance%20Reporting/TX Govt Effective Efficiency Report 80th 0107.pdf](http://www.lbb.state.tx.us/Performance%20Reporting/TX%20Govt%20Effective%20Efficiency%20Report%2080th%200107.pdf))

Federal welfare law encourages the “work-first” approach by providing few incentives to states to achieve meaningful employment outcomes for persons leaving welfare. Though TWC is required to report the employment outcomes of welfare “leavers” to the Legislature, the only performance measure in federal law is the federal work participation rate. In addition, federal law rewards states for reducing welfare caseloads by giving them credit toward their work participation rate for each percentage point they reduce their caseloads. As a result, TWC focuses too much on getting recipients off of welfare, and too little on whether they find work that offers family-supporting wages or career advancement opportunities that would provide a pathway out of poverty.

### **Findings**

The average monthly cost per Choices client was \$323 in 2006, up from about \$175 in 2003.<sup>4</sup> This 85% increase is the result of the decline in TANF caseloads: the number of Choices clients fell almost two-thirds between 2003 and 2006. The cost per client is more than twice as high as TWC’s target cost of about \$160.

Despite the increase in funds available per client, the audit found that outcomes for families leaving TANF have not improved:

- The wages for clients who entered employment remain below the federal poverty level (see graph below, excerpted from page 11 of the audit report);
- Clients tend to find employment in the retail and food service industries, which do not provide many opportunities for job advancement or significant wage increases; and

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<sup>4</sup> This includes direct and administrative spending on education, training, and work-related support services; it does not include the cash assistance, child care, or Medicaid benefits provided to families on welfare.

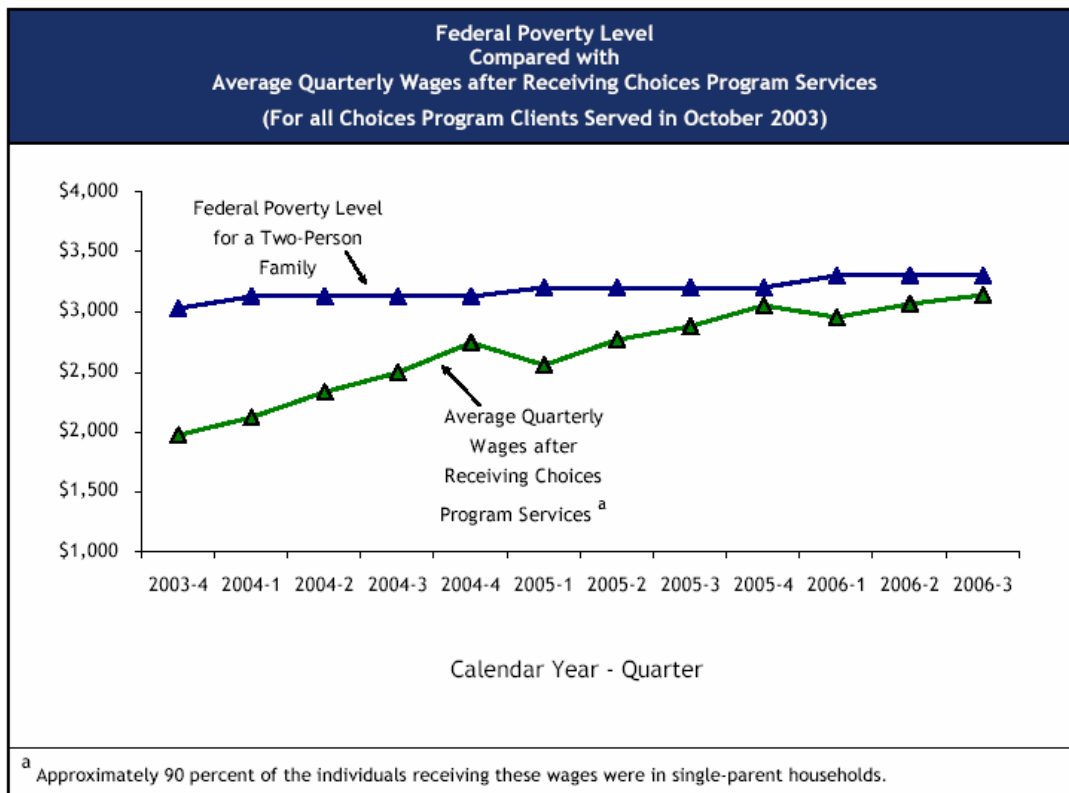
- The recidivism rate is high: 60% of the clients receiving Choices services were on welfare at some point in the past three years.

### Recommendations

- TWC should analyze and evaluate statewide trends in employment outcomes for welfare leavers across all workforce boards.
- TWC should use this analysis to improve the technical assistance provided to boards and target Choices funds in a manner that maximizes the use of those funds.

### TWC/Management Response

- TWC will use the changes noted above – the reorganization of the contract management department, improvements in TWIST tracking, and sharing of best practices among boards – to monitor and analyze statewide trends in Choices program outcomes.
- TWC will share the results of this analysis and provide technical assistance to the boards to assist them in implementing promising practices.



Source: Unaudited data from the Workforce Commission.

### Performance Measures Evaluated/ Information Technology Review

The audit analyzed whether TWC reported reliable results for four performance measures, including whether the boards met Choices

work participation rate targets, the average monthly cost per customer, the entered employment rate, and the employment retention rate. The audit was only able to certify one result. It certified two results “with qualification,” and one as inaccurate.

The audit identified a number of employees who had access to TWIST to change or delete participation rate information, even though their jobs did not require it. Auditors sampled clients with no wage information and whose employment was not verified by the local board but who were considered employed when calculating the employment rate.

### **Recommendations**

TWC should work with the boards to ensure that users have the appropriate level of access to TWIST; require the boards to set up unique user accounts for all TWIST users; and routinely remove user accounts for individuals who no longer require access.

### **TWC/Management Response**

TWC staff is working with TWIST staff to devise further automation controls to prevent participation hours from counting if verification and documentation has not been received.

## **RESEARCH ON EDUCATION & TRAINING IN WELFARE-TO-WORK PROGRAMS**

In April 2006, the Center for Law and Social Policy (CLASP), a national expert on workforce development, published a paper summarizing the lessons learned about effective welfare-to-work training and post-secondary education strategies. The paper also provided guidance to states for expanding access to these programs within the context of the new federal TANF rules.<sup>5</sup> A discussion of CLASP's findings and recommendations to states follows.

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<sup>5</sup> "Strategies for Increasing Participation in TANF Education and Training Activities," by Evelyn Ganzglass, Center for Law and Social Policy, April 17, 2006.

## **Why Increase Participation in Education and Training?**

Well-designed education and training programs are a critical part of a successful welfare-to-work strategy. Many welfare recipients lack the education needed to successfully compete in the labor market. Education and training programs have been shown to help welfare recipients enter the workforce and are linked to their subsequent success in the labor market.

Increasing participation in education and training programs among TANF recipients also makes sense for states and employers. Public resources in adult education and customized workforce training programs yield a high return on investment by preparing Texas' workforce to succeed in a dynamic and global marketplace. While TANF recipients require mid-level skills to maximize earnings and advance their careers, Texas businesses need more workers with mid-level skills to compete globally.

Despite the educational deficiencies of many welfare recipients and the clear link between education and labor market success, Texas invests very little in education and training services for welfare recipients. In fiscal year 2006, Texas spent only 1.5% of federal TANF and State Maintenance of Effort funds on such services.

Texas lags behind most other states in providing education and training opportunities to welfare recipients. In fiscal 2006, only 9.1% of Choices participants were engaged in education and training activities for the purposes of meeting their work requirement. The national average was more than twice as high, with 18.3% of participants engaged in education and training programs.<sup>6</sup>

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<sup>6</sup> FY 2006 Work Participation Rate data from the Office of Family Assistance, U.S. Department of

TANF Recipients Engaged in Employment-Related Education and Training Programs in the Ten States with the Largest TANF Caseloads		
	Total Adults Participating in Work Activities*	Share of Adults in Employment-Related Education & Training Programs
U.S.	443,828	18.3%
		0.0%
California	66,606	18.8%
New York	34,576	9.1%
Pennsylvania	33,690	29.4%
Ohio	30,957	23.1%
Tennessee	30,471	0.0%
Washington	24,702	12.2%
Michigan	16,894	4.5%
Illinois	13,837	28.2%
<i>Texas</i>	<i>11,939</i>	<i>9.1%</i>
Minnesota	11,106	8.7%

\*Adults participating in more than one activity are included once in this total.

When Congress reauthorized the TANF block grant in 2006, it increased the pressure on states to reduce their welfare caseloads and increase the number of families participating in work activities or face financial penalties. At the same time, the rules substantially tightened the definition of what qualifies as work and job training under federal law, forcing states to think creatively when devising welfare-to-work programs.

As Texas analyzes its options for complying with the new federal rules, TWC should increase its use of education and training as a strategy for moving families off of welfare and into jobs that lift them out of poverty. The Legislature can support these efforts by investing more public resources in employment and training services for welfare recipients.

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Health and Human Services  
<http://www.acf.hhs.gov/programs/ofa/particip/indexparticip.htm#2006>). Includes recipients who are engaged in one or more of the following federally approved work activities: on-the-job training, vocational education, job skills training, or education related to employment.

## Which Education and Training Approaches Are Most Effective?

- Effective education and training programs are those with strong connections to local labor markets.
- “Mixed-strategy” programs – as opposed to employment-only or education-only programs – are the most effective strategy for helping parents stay employed and increase earnings. These programs emphasize employment, include a strong education and training component, *and* provide a range of services specifically designed to address recipients’ barriers to employment.<sup>7</sup>
- Postsecondary education leads to greater employment and earnings gains.
- While combining work and education can be an effective strategy, it can overwhelm single parents, who face significant challenges when juggling work, family, and school responsibilities. States can mitigate these challenges by working with education and training providers to arrange classes on evenings and weekends and provide flexible class schedules that accommodate students’ changing work schedules.

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<sup>7</sup> CLASP cites the National Evaluation of Welfare-to-Work Strategies (NEWWS) as the best source of information on the role of education for helping adult recipients transition to employment. The results of this evaluation are at <http://aspe.hhs.gov/HSP/NEWWS/>.



## When Can States Count Education and Training Towards Federal Work Participation Requirements?

TANF recipients must be engaged for a minimum number of hours per week in specific work activities in order to count toward federal work participation requirements.\* Federal law established 12 categories of work activities that can count towards the work participation rates. Nine of these activities are considered “core” activities and can count toward any hours of participation. Three other “non-core” activities count only when the individual also has completed at least 20 per week of core activities. (For two-parent families, the requirement is 30 hours of core activities, or 50 hours if the family receives subsidized child care.) Education and training activities are classified as follows:

### Core activities include:

- On-the-job training

### Non-core activities include:

- Vocational educational training that is limited to 12 months in duration;\*\*
- Satisfactory attendance at secondary school or in a course of study leading to a GED, for recipients without a high school diploma or equivalent;\*\*
- Job skills training directly related to employment;
- Education directly related to employment, for recipients without a high school diploma or equivalent;

\*Single-parent families must participate for 30 hours per week, or 20 hours if they include a child under 6. Two-parent families must participate for 35 hours a week, or 55 hours a week if receiving federally-funded child care.

\*\*No more than 30 percent of the families that count toward a state’s work rates may do so through these activities.

## Strategies for Increasing Participation in Education and Training Programs

*Help recipients combine education and work.*

*Expand the use of pre-employment vocational educational training so that recipients can obtain skills before turning their time and energies to finding a new job.*

- **Create college “bridge” programs for students with low skills.** Bridge programs are community- college-based programs designed to help disadvantaged students with low academic skills get accepted to and succeed in college.
- **Integrate job skills training and English language instruction with jobs skills training.** Parents who have both limited English proficiency language and limited skills rarely complete traditional adult basic education (ABE), English as a Second Language (ESL) or GED programs. Integrating job skills training with ESL courses increases the likelihood that welfare recipients will enter and complete workforce training and earn college credits.
- **Use on-the-job training and other incentives to promote employer-based training.** States should partner with employers to provide training that is relevant to local labor market, offered during work hours, and pays workers for at least some of their time in class.
- **Link postsecondary attendance with the Federal Work Study program.** The Federal Work Study program operates in most community and four-year colleges and provides jobs for low-income students who are eligible for federal financial aid (which includes most postsecondary students who are also receiving TANF). Federal work study jobs pay at least minimum wage and can be either on- or off-campus. Work study jobs are typically easier for students to manage than a regular job because employers understand that education is a priority and are willing to schedule work hours to accommodate the students’ class schedules.